

**March 4, 2004 Board Meeting
Public Hearing on Recent Exposure Drafts
*Heritage Assets and Stewardship Land: Reclassification from Required Supplementary
Stewardship Information and
Identifying and Reporting Earmarked Funds*
Agenda of Speakers**

**Speakers Providing Testimony on *Heritage Assets and Stewardship Land:
Reclassification from Required Supplementary Stewardship Information***

9:00-9:20	John Webster, Library of Congress
9:20-9:40	Jesse King, US Department of Agriculture, Office of the Chief Financial Officer
9:40-10:40	Sky Leshner, Department of Interior, Office of the Chief Financial Officer Nina Hatfield, Department of Interior, Office of the Chief Financial Officer Roger LaRouche, Department of Interior, Office of the Inspector General Jeff Norris, KPMG

Short Break Between Hearing Topics

Speakers Providing Testimony on *Identifying and Reporting Earmarked Funds*

11:00-11:20	Sky Leshner, Department of Interior, Office of the Chief Financial Officer Nina Hatfield, Department of Interior, Office of the Chief Financial Officer
11:20-11:40	James Lingeback, Department of Treasury
11:40-12:00	Dave Cotton, Cotton & Co. Phil Peters, Advisory Board Member of The Institute for Truth in Accounting

Public Hearing on Recent Exposure Drafts

Speakers Providing Testimony on *Heritage Assets and Stewardship Land: Reclassification from Required Supplementary Stewardship Information*

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A. Biography

February 2004

**LIBRARY OF CONGRESS
JOHN D. WEBSTER
BIOGRAPHY**

Mr. Webster is the Chief Financial Officer at the Library of Congress. He was appointed to that position in November 1989 and is responsible for strategic planning, budget, accounting operations, financial reporting, financial systems, and disbursing functions. During his tenure with the Library, he has received the Librarian's award for Meritorious Service and many performance awards for his work in improving the Library's financial management. The Library's Independent Auditor's have issued an unqualified opinion on the Library's consolidated financial statements for the past eight fiscal years.

Previously, Mr. Webster worked for 14 years with the Office of Personnel Management (OPM) in a number of positions associated with Government-wide benefits programs. His last position with OPM was Deputy Assistant Director for Financial Control and Management, with responsibility for accounting, budget, management information, quality assurance, and administrative services for the Retirement and Insurance Group. He received the Director's award for Distinguished Service at OPM for improving the financial management of the benefit systems.

Before joining the Federal Government in 1975, Mr. Webster was a senior accountant with Haskins & Sells, where he specialized in C.P.A. audits and systems development for public and private corporations.

Mr. Webster has also received the Department of the Treasury's award for Distinction in Payments Management in 1990 for his work in improving the cash management of the Federal Employees' Health Benefits system, the Achievement of the Year Award in 1997 from the Association of Government Accountants' Washington Chapter for improving the Library's financial management, and the Association of Government Accountants' President's award in 2000 for outstanding work as National Treasurer and Chair of the Finance and Budget Committee.

Mr. Webster is a Certified Public Accountant and Certified Government Financial Manager. He also passed the Certified Internal Auditor examination in August 1980. He holds a bachelor of science degree in accounting from the University of Maryland. He has taught accounting and auditing courses at the Northern Virginia Community College and Howard County Community College in Columbia, Maryland. Mr. Webster is a member of the Washington Chapter of the Association of Government Accountants (AGA) and the American Institute of Certified Public Accountants. Mr. Webster is on the AGA Journal board, National Board of Directors, and Awards committee. Mr. Webster is also co-chairman of the Legislative Branch Financial Managers Council.

B. Statement or Remarks

Statement of John D. Webster
Chief Financial Officer
The Library of Congress
before the Federal Accounting Standards Advisory Board
Exposure Draft on "Heritage Assets and Stewardship Land:
Reclassification from Required Supplementary Stewardship Information"
March 4, 2004

Mr. Chairman and Members of the Board:

I appreciate the opportunity to appear before the Board to discuss the exposure draft on "Heritage Assets and Stewardship Land: Reclassification from Required Supplementary Stewardship Information (RSSI)."

As a legislative branch agency, the Library of Congress (LC) is not required to follow standards issued by FASAB or prepare annual audited financial statements, but LC has chosen to adopt FASAB standards and prepare annual audited financial statements because it is a good business practice.

LC's largest asset is its collection of approximately 128 million items -- a heritage asset. LC has prepared a separate stewardship report since fiscal 1995 as part of its annual financial report. The fiscal 2003 stewardship report contains 16 pages of mostly non-monetary information that describes, in one location, LC's acquisition, reference, preservation, storage, and security policies for its collections.

LC considers the reclassification of non-monetary heritage asset information as basic information, except for condition information, to be a **major change** in financial reporting that would increase the cost of financial reporting and decrease the amount of useful information available in LC's financial statements. I would like to reiterate that the FASAB proposal should not be considered a minor reclassification change.

If heritage asset information must be reported in a note to LC's basic financial statements, LC would significantly reduce the amount of information communicated to the

reader of the financial statements (see attached draft note). Why? Because the benefit of including any non-monetary information above the minimum required information would not be worth the additional audit costs. Non-monetary information describing LC's collections is maintained and accumulated differently than monetary information. For example, the count for LC's manuscript collection of more than 57 million items is performed by calculating the average number of items contained in thousands of boxes stored on more than 17 miles of shelving. LC does not annually reverify the number of items; instead, LC simply adds and subtracts current year activity. The cost for LC's staff to explain and verify this estimated count for audit purposes and the cost for auditors to perform audit procedures for this subset of LC's total collection would simply not be a good allocation of LC's resources. As a result, a detailed breakdown of LC's collections (e.g., estimated number of manuscripts [57 million], music items [5 million], photographs [12 million], films, television, and video items [925,000], maps [4.8 million], books and other printed materials [29 million]) would not be included in the note to the basic financial statements.

LC would limit its audit exposure to one descriptive total number (i.e., approximately 128 million items), and LC might also include the estimated number of items added and withdrawn during the year. This approach would be consistent with how the Smithsonian Institution reports under the Financial Accounting Standards Board (FASB) standards, which is apparently the direction that FASAB wants Federal agencies to follow.

How much would the proposed FASAB change cost? LC does not maintain an item level inventory of its collections. LC is currently in the midst of an eight-year project to establish an item level inventory of its estimated 19 million classified book collection, but LC does not plan to ever have an item level inventory of its special collections. LC secures its special collections via a series of layered collection level controls. LC has various methods for counting the different collection formats, but this non-monetary information was never developed in the context of audit evidence requirements. As a result, LC would be required to

expend significant resources to document the counting methodology for each collection format and storage location and then respond to auditor evidence requests. Even by limiting the amount of information included in the basic financial statement note, I still estimate that the Library would expend hundreds of thousands of dollars in staff costs to document the size of LC's collections. Because LC's collections are permanently assigned to one of more than a dozen separate custodial divisions, and may be temporarily located in many others while being processed, circulated, exhibited, preserved or subject to other related activities, I believe the audit costs would also be substantial.

What is the benefit of expending LC's limited resources for FASAB's new financial reporting requirement? In my view, NOT MUCH! At best, LC would improve its estimate by several million items – so what!

The proposed FASAB change would not improve, in any way, LC's plan for collections security. LC has a very detailed collections security plan, which has been reviewed by many groups of auditors and approved by congressional oversight committees. In fact, many other libraries and cultural property organizations charged with the security of heritage assets and other collections request briefings on LC's plan and use our plan as a model. My real concern is that the cost of implementing the proposed FASAB standard would be funded by reducing resources currently used to implement the collections security plan.

LC cannot currently assert without qualification that the controls in place for all of its collections are adequate to mitigate the risks. But since 1999, LC has asserted that bibliographic, preservation, and physical security controls are adequate for newly acquired items. The focus of LC's resources and energy must continue to be focused on providing verifiable assurance that LC is securing its collections for future generations.

LC believes that the proposed FASAB standard would hurt not help this strategic priority.

An alternative to maintaining the status quo or approving the FASAB proposal would be to simply relabel the current RSSI section as Required Supplemental Information

(RSI). This alternative would continue to allow preparers to provide a complete picture, in one place, of their heritage assets without unjustified additional costs. The hoped-for development of an audit-based distinction between basic, RSSI and RSI would no longer be an issue and financial statement users would continue to have available detailed non-monetary information.

In summary, I do not believe that FASAB has demonstrated that the benefit of having LC's one essential number subject to additional audit scrutiny is worth the extra costs or the reduction in usefulness of information about LC's collections. In fact, what are the benefits of the proposed change? Has audit scrutiny been increased in a measurable way? I say NO! Has including the reduced information about LC's collection in a note to the basic financial statements improved "fair" presentation. I say NO!

From my standpoint, LC's financial reporting took a major step forward when a separate heritage assets section was added. LC does not want to take a step back to the traditional model. The heritage asset section is prepared jointly by program and financial staff, and it effectively communicates information to a reader of LC's financial report. Presenting non-monetary heritage asset information in potentially three separate locations in the financial statements would be confusing, not measurably improve audit scrutiny, and definitely is a step backward in Federal financial reporting.

I strongly urge the FASAB to reconsider its proposed standard. At the time Statement of Federal Financial Accounting Standards (SFFAS) #8 was adopted, FASAB stated "...these stewardship items warrant specialized reporting to highlight their importance and to portray them in additional ways than provided by financial accounting." I believe that non-monetary heritage asset information should not be mixed with monetary basic financial statement information because the mix will hurt not help "fair" presentation.

This concludes my statement. I would be happy to answer any questions that the Members of the Board may have.

C. Draft Note and Draft RSI

Draft Note to Statement of Financial Position on the Library's Collections

The Library's collections are classified as "heritage assets". Heritage assets are assets with historical, cultural educational, artistic or natural significance. A fundamental part of the Library's mission is to maintain a universal collection and make it accessible for current and future generations.

The Library's collection development policies are designed to fulfill its responsibilities to serve (1) the Congress and United States government as a whole, (2) the scholarly and library community, and (3) the general public. Written collection policy statements ensure that the Library makes every effort to possess all books and library materials necessary to the Congress and various offices of the United States government to perform their duties; a comprehensive record, in all formats, documenting the life and achievement of the American people; and a universal collection of human knowledge (except clinical medicine and technical agriculture, which are the responsibilities of the National Library of Medicine and National Agricultural Library, respectively) embodying primarily in print form the records of other societies, past and present.

Copyright deposits are a major source of the Library's collections of Americana. The Library also acquires materials by purchase, transfer from other federal agencies, gift, domestic and international exchange, or by provisions of state and federal law. Many of these materials are foreign publications.

Various preservation methods are used to maintain the collections and disposals occur only for the exchange and gift of unwanted or duplicate copies.

The Library's collections total approximately 128 million items. During fiscal year 2003, the Library added nearly two million items and withdrew just over 150 thousand items.

The Library's collections are available to users in numerous public reading rooms located in three Library buildings on Capitol Hill. The Library also maintains a web site that provides on-line access to more than eight million digital collection items. The Library's first service priority is to the Congress; second, to other branches of the Federal government; and third, to scholars, other libraries and the general public.

The collections are priceless and in many cases irreplaceable. No financial value can be placed on them. So, in accordance with federal accounting standards, their value is not presented on the balance sheet. The cost of acquiring additions to the collections is expensed when incurred in the statement of net cost.

Draft Required Supplemental Information (RSI) on the Condition of the Library's Collections

The Library of Congress has the world's largest library collection of more than 126 million items, including research materials in over 450 languages and various media. Providing access to this collection inevitably puts it at risk and could impair the Library's ability to serve the Congress and other users in the future. However, the collections exist to be used, and management

accepts the responsibility of mitigating risk to the collections at the same time it fulfills its mission of service to the Congress and the nation. Therefore, the Library has chosen to balance the usage of the collection with the long-term preservation requirements of the collections.

As of September 30, 2003 and 2002, the collections were determined to be in a useable condition for fulfilling its service mission. During fiscal 2003, only a small percentage of materials were removed from the collection because of use and/or deterioration of the medium. The ultimate useful life of a library item varies by its medium (e.g. book, film, tape, manuscript, disk), and the manner in which it is used and stored.

The Library employs a variety of methods to prolong the useful life of its deteriorating materials, including:

- The establishment of adequate environmental storage conditions
- The usage of binding or other methods to house items
- The mass deacidification of materials
- The use of surrogates in serving the collections to the public
- The reformatting of collections to other medias

The Library has inadequate temperature and humidity control in some collections storage areas; inadequate space for appropriate storage of collections materials; insufficient space for reformatting the acetate negative collection; and insufficient funds for reformatting. These conditions cannot be fully addressed with current funds and physical plant. The move of collections into the storage facility at Fort Meade, Maryland is expected to remedy many of these difficulties for books and paper-based materials, and the acquisition of the National Audio-visual Conservation Center in Culpeper, Virginia is a major step in the preservation of film and other media.

D. Library of Congress Comment Letter Previously Submitted

1. THIS EXPOSURE DRAFT PROPOSES THAT HERITAGE ASSETS INFORMATION BE REPORTED AS BASIC INFORMATION, EXCEPT FOR CONDITION INFORMATION, WHICH WOULD BE REPORTED AS RSI. DO YOU AGREE WITH THIS PROPOSAL? IF NOT, PLEASE EXPLAIN YOUR REASONS AND THE ALTERNATIVES THAT YOU WOULD PREFER.

No. The Library of Congress (LC) agrees with the FASAB conclusion that required supplemental stewardship information (RSSI) is essential to portray the Government's "financial condition," which is a broader concept than financial position. However, LC also believes that continuing a separate RSSI section in the financial statements, using required supplementary information (RSI) auditing standards, is the best alternative for communicating LC's financial condition to users. As an alternative, the Library would support reclassifying the RSSI section as RSI.

The FASAB proposal would result in less or less useful information available to the financial statement readers because previously reported stewardship information would be eliminated or information would be scattered in three places (i.e. the notes to the statement of financial

position, RSI, and other supplemental information (OSI)). LC also believes the new proposal would increase not decrease potential confusion and cost more to administer. RSSI is non-monetary and should not be lumped together with monetary information portraying LC's financial position. In doing so, the FASAB would mix financial position (monetary) reporting with financial condition (non-monetary) internal control reporting. LC agrees that a separate RSI report on the condition of its collections (heritage assets) is appropriate and the only practical solution for auditing the information, but we also believe that all non-monetary heritage assets information should be reported together.

If heritage asset information were reported as a footnote to the statement of financial position, LC would significantly reduce the amount of information communicated to the reader of the financial statements (see attached draft footnote) versus the amount of information now communicated in the separate RSSI section. In addition, the condition information for heritage assets would be separately displayed as RSI (see attached draft). LC would most likely not provide any other supplementary information (OSI). The bottom line is that the financial statements would contain less information and be less useful to the reader. A dedicated, persistent reader would need to piece together LC's heritage asset information by looking in two different parts of the report, and the reader would not have anywhere near the information now presented in the RSSI report. LC cannot envision how this scenario would improve LC's financial reporting or justify the added costs to administer.

Why would LC take this approach? The major goal of LC's stewardship of its heritage assets (collections) is to reach the ability to assert that effective management controls exist over its collections, not allocate scarce resources to improve financial reporting and additional auditing of non-monetary numbers. LC's internal control framework for its heritage assets includes several dimensions (i.e., physical, inventory, bibliographic, and preservation controls), and LC has multiple efforts in process to reach our goal of asserting effective collections control. LC would most likely be able to maintain its "clean" audit opinion on financial reporting by reporting the minimum information required, but LC would not divert one penny more than required to financial reporting and increase audit costs at the expense of improving collections control.

LC believes that the FASAB proposal would cost more because auditors would be required to perform additional audit procedures on the non-monetary information included in the footnote to the statement of financial position, and LC would be required to respond to these additional audit requirements. The additional work required would be significant because of the scope of LC's collections and non-monetary information is maintained and accumulated differently than monetary information. For example, the count for LC's manuscript collection of more than 56 million items is performed by the average number of items contained in thousands of boxes stored on more than 17 miles of shelving. The manner items are counted varies by collections format (e.g., books, maps, films, audio recordings, photographs, digital). The time and effort to explain and verify, solely for financial reporting purposes, the count of LC's more than 126 million items for audit purposes is not a good allocation of LC's resources.

LC believes that diverting resources for this purpose would be hard, if not impossible, to justify at the expense of controls over the collections. Using the RSI auditing standards for heritage asset information, until new auditing standards are developed, would not increase financial reporting costs and continue the focus of RSSI reporting on internal controls. For example, LC is in the process of an eight-year item level inventory of its classified book collection, which totals approximately 17 million items. LC would not divert resources from this project to improve financial reporting.

LC believes that financial reporting took a major step forward when a separate heritage assets section was added. LC does not want to take a step back to this proposed model. Program and financial staff prepare the RSSI section jointly, and it prominently provides accountability information -- descriptive, non-monetary information (e.g., the estimated number and qualitative descriptions of the collections, major preservation processes, physical security measures, status of arrears processing).

LC believes that continuing the presentation of RSSI as a separate section using RSI auditing standards is the best approach to communicating the financial condition of LC's assets. The current reporting model communicates to a reader of LC's financial report that the financial position is fairly stated, but LC's collections controls require further improvements -- a successful level of communication. The reader can clearly distinguish between an auditor's opinion on financial position and the auditor's evaluation of internal controls over collection assets (a separate section of the financial statements). However, under FASAB's proposal, the communication would not be as clear and useful because non-monetary information would be mixed with monetary financial position information and less information would be presented for the reader to understand the complexities of managing a collection of more than 126 million items.

In summary, LC believes that continuing the presentation of RSSI as a separate section using RSI auditing standards is the best approach to communicating the financial condition of LC's largest asset. The FASAB proposal has not demonstrated that the added costs are worth the perceived benefit. The real question is: should non-monetary financial condition information be subject to the same audit standards as monetary financial position information? LC says no and believes the audit community should use RSI standards until a better, less costly alternative is presented.

2. THIS EXPOSURE DRAFT PROPOSES THAT STEWARDSHIP LAND INFORMATION BE REPORTED AS BASIC INFORMATION, EXCEPT FOR CONDITION INFORMATION, WHICH WOULD BE REPORTED AS RSI. DO YOU AGREE WITH THIS PROPOSAL? IF NOT, PLEASE EXPLAIN YOUR REASONS AND THE ALTERNATIVE THAT YOU PREFER.

LC does not own stewardship land. However, LC does not agree with the proposal that stewardship land information be reported as basic information for the same reasons as we do for our heritage assets. We believe the entities maintaining stewardship land information would be unnecessarily faced with the same issues we would be for LC's heritage assets.

3. THIS EXPOSURE DRAFT PROPOSES MINOR CHANGES TO THE CURRENT DISCLOSURE REQUIREMENTS FOR HERITAGE ASSETS AND STEWARDSHIP LAND. SPECIFICALLY, IT REQUIRES ADDITIONAL REPORTING DISCLOSURES ABOUT ENTITY STEWARDSHIP POLICIES AND AN EXPLANATION OF HOW HERITAGE ASSETS AND STEWARDSHIP LAND ARE PERTINENT TO THE ENTITY'S MISSION. DO YOU FORSEE ANY PROBLEMS WITH THIS NEW DISCLOSURE REQUIREMENT?

LC would be able to provide the information requested.

4. THIS EXPOSURE DRAFT PROPOSES AN EFFECTIVE DATE FOR PERIODS BEGINNING AFTER SEPTEMBER 30, 2004. DO YOU AGREE WITH THIS EFFECTIVE DATE? IF NOT, WHAT DATE WOULD BE PREFERABLE AND WHY?

LC does not agree with an effective date of September 30, 2004. We request a date comparable to the date given to implement Statement of Federal Financial Accounting Standards (SFFAS) #10. Affected parties of SFFAS #10 had more than two years to implement the standard because of an increased need for new systems due to the Y2K situation. Similarly, there will be an increased need for new procedures to document the non-monetary heritage assets information because of the increased audit scrutiny. An effective date of after September 30, 2006, at a minimum, would be preferred.

5. THIS EXPOSURE DRAFT USES THE TERM "SIGNIFICANT" IN PAR. 28 AND 44 TO DESCRIBE HERITAGE ASSETS AND STEWARDSHIP LAND FOR WHICH AN ENTITY SHOULD PROVIDE THE REQUIRED DISCLOSURES. THE CONSENSUS OF THE BOARD WAS THAT THE PREPARER SHOULD BE ALLOWED TO EXERCISE PROFESSIONAL JUDGEMENT IN DETERMINING IF THE HERITAGE ASSET AND STEWARDSHIP LAND ARE SIGNIFICANT. DO YOU AGREE? IF NOT, WHAT FACTORS OR CRITERIA SHOULD BE CONSIDERED TO DEFINE CERTAIN HERITAGE ASSETS AND STEWARDSHIP LAND AS SIGNIFICANT?

LC agrees that the preparer should be allowed to exercise professional judgement in determining if the heritage asset and stewardship land are significant. Implementing this standard will be difficult for many organizations, including the LC, and as much latitude should be afforded by the board as possible.

A. Biography

Jesse L. King

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EXPERIENCE AND ACCOMPLISHMENTS

USDA (United States Department of Agriculture), Washington DC

Confidential Assistant to the Chief Financial Office, Controller

As Controller, Lead a staff of 300 in providing accounting, payment processing, Financial Reporting under OMB 01-09 requirements, FACTS I and FACTSII reporting to Treasury, payments processing, cash reconciliation and property services to 17 agencies and 10 staff offices.

Lead an accounting clean up effort at the United States Forest Service that resulted in the first ever unqualified audit opinion on the FY2002 Financial Statements of the agency. As a result, the USDA also received its first ever unqualified audit opinion on its FY2002 Financial Statements.

Provide support to the USDA CFO as required.

InterSolve Group, Inc., Dallas, TX

1996 2001

The leading virtual professional services firm providing Just-In-Time Talent to enable senior executives to formulate vital strategies, execute important projects and solve critical problems.

Converted the Safekeeping and Investment Portfolio's acquired in the purchase of a major North Eastern Bank from its computer system to the acquirer's Front Office Trading system and the Back Office Operating system for Trading and Investment Securities of a major United States financial institution.

Re-engineered the Data Warehouse Operations of a major United States financial institution, thus significantly improving the quality of the data extracted from Source Systems and loaded to the warehouse by:

- Assisted in the design of reconciling data extracted from Source Systems at each critical step in the data transformation process until the data is loaded to the data warehouse.

- Reconciliation will be done using a third party vendor automated reconciliation software tool.

- Assisted in building processes and installing the reconciliation tool covering 15 transactions systems feeding the data warehouse.

- Assisted in the design and installation of an automated suspense/orphan transaction monitoring and tracking system covering 29 source systems feeding the data warehouse.

Converted the Front Office Trading system and the Back Office Operating system for Trading and Investment Securities of a major United States financial institution. The new Y2K compliant system replaced an old non-Y2K compliant Trading/Investment system. The new system provides the bank with online trading and inquiry capability not previously available from the old trading system.

Re-engineered the Electronic Banking Operations of a major United States financial institution, thus increasing processing capacity by 30%, reducing net charge-offs by 60-70 basis points, and eliminating significant labor costs while improving customer service.

SOURCE, INC., Dallas, TX.

1996 1998

A telecommunications manufacturing, asset management and logistics company with \$42MM in revenues.

Consultant

Vice President & Chief Financial Officer

Vice President & Chief Operations Officer

As a consultant, operated as interim Chief Financial Officer responsible for all financial and accounting functions. Managed daily cash position and bank working capital line of credit. Managed Inventory Production Control and Procurement functions responsible for \$7.2 million inventory of raw material, work-in-process and finished goods. Managed the human resource function. Acted as interim operations Manager for four months while conducting an Executive Search for a Vice President-Operations Manager.

Redesigned telephone re-manufacturing processes and implemented newly designed processes achieving a 25% improvement in production capacity.

Reduced inventory by \$2 million through improved inventory production control and procurement procedures.

Managed the direct sales force, which generated \$42 million in new/re-manufactured commercial telephone and commercial telephone systems sales, warehouse logistics services and asset management services.

Redesigned the sales platform eliminating a call center concept, which did not function well in the sale of re-manufactured telephonic equipment. This resulted in increased sales of \$1 million a month.

As Chief Operating Officer reporting to the CEO was responsible for managing all operational activities of the company. Reporting to me as COO was the VP & CFO, the VP & Operations Manager and the VP & Director of Human Resources. In addition as COO was responsible for directly managing the sales force.

ARTHUR ANDERSEN LLP, Los Angeles, CA.

1995 1996

An auditing, accounting, tax and consulting professional services firm with offices nationally and internationally.

Senior Manager-Business Consulting, Financial Services

Responsible for designing solutions to clients' business problems. Marketed those solutions in selling business to prospective clients. Responsible for developing business proposals and the presentation of those proposals to clients and prospective clients.

Developed a business strategy for a \$150 million community bank in Orange County, CA. Assisted the client in identifying significant revenue enhancement and cost reduction opportunities.

Assisted an \$8 billion bank in identifying significant cost reduction and revenue enhancement opportunities. Recommendations made to the client would involve significant process and system re-engineering to achieve cost reduction and revenue enhancement opportunity of \$20-\$25 million.

**GREAT WESTERN FINANCIAL CORPORATION, Chatsworth, CA
1993 1995**

A \$44 billion multi-regional, consumer oriented financial services company.

Senior Vice President and Controller

Responsible for Bank and Securities Accounting, Departments, Credit Risk Management Department Corporate Services, Procurement, Corporate Facilities Management, Re-engineering & Downsizing and Outsource Management and Sourcing and Procurement Negotiations.

Headed and implemented Cost reduction, reengineering effort reducing operating expenses \$100 million (10%) and 1,000 employees representing 25% of affected employees.

Negotiated and procured a seven year, \$160 million contract with a national telecommunications supplier to design, implement and manage a public, frame relay data network encompassing both a wide area network (WAN) and local area network (LAN). \$30 million in cost savings are expected over the seven-year contract term.

Negotiated and procured a five-year, \$150 million contract with a national item-processing vendor to implement a bank like memo post, proof of deposit system running on an image platform. Cost savings of \$20-25 million are expected over the five-year contract term.

Headed a system reengineering process project to install Hogan Systems Inc. "Earnings Analysis System" which measures organizational, product and customer profitability. Negotiated contract to purchase software and select consultants with a value of \$2.8 million. Project successfully completed within budget and on time ten months later.

**NATIONSBANK, Charlotte, NC
1991 1993**

Formerly First RepublicBank Corporation

A \$170 billion Financial Services Corporation with locations in 10 states.

Senior Vice President and Manager, Bank Accounting Operations

Managed the general accounting operations including general ledger, fixed assets, and accounts payable. Managed a staff of 80 people. Oversaw the consolidation of the accounting departments of C&S/Sovran and NCNB Texas National Bank, which were located throughout seven states in seven cities with some 600 people.

Consolidated the Accounting departments of (C&S/Sovran acquisition) with accounting operations in five states and 250 people to a central department. 225 positions were eliminated.

Converted and consolidated the C&S/Sovran general ledger systems (4), accounts payable systems (5), and fixed asset systems (2) into one.

NCNB TEXAS NATIONAL BANK, Dallas, TX

1974 1991

Formerly First Republic Bank Corporation

A \$42 billion retail/commercial bank with 45 branches located throughout Texas.

Senior Vice President and Controller 1986 1988

Directed the general ledger, commercial loan, retail loan, and deposit systems and oversaw the conversion of a number of new bank acquisitions. Responsible for all accounting activities of the Bank, including profit planning, forecasting, cost accounting, management reporting, general accounting, accounting policy, SEC/Shareholder reporting, Board reporting and other related financial functions including product profitability systems and lines of business reporting systems.

Consolidated 20 regional accounting staffs into a centralized operation in Dallas resulting in reduction of staff from over 300 people to just over 100.

Managed and consolidated 35 separate general ledger systems.

Managed and consolidated 66 account payable and fixed asset systems.

Selected, negotiated and managed a systems project to install D&B accounts payable system. System successfully completed on time and within budget

Directed the GAAP/SEC accounting and reporting aspects of the joint proxy/prospectus filed with the SEC related to the merger of Republic and Interfirst Corporations registering for public sale \$150 million of preferred stock and \$100 million of subordinated capital notes.

Created the organizational structure and merged the financial staffs of the two companies, resulting in a staff of 157 employees.

Directed the conversion of First RepublicBank Dallas' general ledger, commercial loan, retail loan, and deposit systems to the selected InterFirst systems

Vice President and Manager of Accounting 1984 1986

Responsible for various accounting functions. Installed a general ledger system for the \$ 15 billion lead bank (one of 40 unit banks in Texas), with a staff of 14 people. Directed various finance departments, including general ledger, accounts payable, fixed assets, line of business reporting, and cost and product management accounting.

Vice President and Deputy Auditor 1980 1984

Managed a staff of 40 auditors throughout four regions during this time. Directed the audit of some 35 subsidiary banks while developing an audit rating system for tracking internal controls at each of the affiliate banks.

Managed a staff of 40 auditors organized under four regional auditors who reported to the Deputy Auditor.

Directed audits of 37 subsidiary corporations owned by RepublicBank Corporation and RepublicBank Dallas with total assets of \$8 billion.

Developed an auditing rating system in conjunction with the General Auditor to use in reporting the status of internal controls at affiliate banks to the Audit Committee.

Jesse King, US Department of Agriculture, Office of the Chief Financial Officer

Vice President and Manager Management Accounting Group

1979 1980

With a staff of 20 people, directed all management accounting and reporting for the Bank including profit center reporting. Cost accounting and reporting, and the annual profit planning process.

Vice President and Manager Corporate Accounting Group

1978 1979

Responsible for all accounts payable, fixed asset accounting and financial controls, encompassing the establishment of accounting policies and procedures. Also responsible for reporting of a number of subsidiaries Including, the leasing company a mortgage servicing company and a specially licensed international office

Assistant Vice President and Manager

1974 1978

Corporate Accounting, Reporting and Subsidiary Accounting Section

ARTHUR YOUNG & COMPANY, Dallas, TX

1969-1974

An auditing, accounting, tax and consulting professional services firm with offices nationally and internationally.

Senior Auditor

Major audit client responsibility was RepublicBank Corporation.

EDUCATION

BS, Accounting, Louisiana State University, Baton Rouge, LA
School for Bank Administration, Madison, WI

PROFESSIONAL MEMBERSHIPS/AFFILIATIONS

AICPA
Texas Society of CPA's
Certified Public Accountant, Texas

B. Statement or Remarks

Synopsis of USDA Testimony – Position on Exposure Draft, *Heritage Assets and Stewardship Land: Reclassification from Required Supplementary Stewardship Information*

Cost, human capital limitations, and systems enhancements will severely impact USDA's ability to comply with the proposed reporting standard by the proposed effective date for periods beginning after September 30, 2004. Required interim financial statement reporting would involve significant procedural changes because the change in stewardship/heritage asset information to basic footnote disclosures would be subject to the accelerated financial reporting deadline and audit scrutiny. Systems design and improvements will be required to maintain an auditable system with a proper design of data flows and internal controls. The required resources to complete the conversion of data from historically unrelated databases to a centralized database, which is not currently in USDA's budget, would be significant. Accordingly, if the exposure draft becomes an approved standard, USDA proposes an effective date for periods beginning after September 30, 2005.

The proposed reclassification of heritage assets and stewardship land would require extensive work to implement auditable processes and procedures in over 300,000 sites within USDA. We do not believe that the increased cost in audit fees, personnel time, equipment and other support items will provide a commensurate improvement in the ability to manage these assets. The audit process is not easily adaptable to non-financial data that includes historical information dating back several centuries.

C. USDA Comment Letter Previously Submitted

November 6, 2003

Wendy M. Comes
Executive Director
Federal Accounting Standards Advisory Board
441 G Street NW, Suite 6814
Mailstop 6K17V
Washington, DC 20548

Dear Ms. Comes:

The Department of Agriculture (USDA) appreciates the opportunity to comment on the exposure draft, *Heritage Assets and Stewardship Land: Reclassification from Required Supplementary Stewardship Information*. We have identified the following areas of concern regarding the proposals contained in the exposure draft:

- Cost, human capital limitations, and systems enhancements will severely impact USDA's ability to comply with the proposed reporting standard by the proposed effective date for periods beginning after September 30, 2004. Required interim financial statement reporting would involve significant procedural changes because the change in stewardship/heritage asset information to basic footnote disclosures would be subject to

the accelerated financial reporting deadline and audit scrutiny. Systems design and improvements will be required to maintain an auditable system with a proper design of data flows and internal controls. The required resources to complete the conversion of data from historically unrelated databases to a centralized database, which is not currently in USDA's budget, would be significant. Accordingly, if the exposure draft becomes an approved standard, USDA proposes an effective date for periods beginning after September 30, 2005.

- The proposed reclassification of heritage assets and stewardship land would require extensive work to implement auditable processes and procedures in over 300,000 sites within USDA. We do not believe that the increased cost in audit fees, personnel time, equipment and other support items will provide a commensurate improvement in the ability to manage these assets. The audit process is not easily adaptable to non-financial data that includes historical information dating back several centuries.
- The exposure draft should clarify where to report heritage assets and stewardship land in the financial statements. The draft does not indicate if Federal entities should include a balance sheet line item for these assets with a reference to a footnote disclosure or if they can describe their heritage assets and stewardship land in the Property, Plant and Equipment (PP&E) footnote. It would be helpful if the Federal Accounting Standards Advisory Board (FASAB) would provide an example of the proposed reporting.
- Finally, it would be helpful if FASAB would provide examples that show when an agency had identified its heritage assets and stewardship land to be significant to the agency's mission. The proposed reporting standard should emphasize the need for Federal entities to use uniform and documented standards to identify such assets.

Any questions regarding our contacts may be addressed to Donna Bateman at (202) 720-8977 or Charleta Dixon at (202) 720-4976.

Sincerely,

/signed/

Patricia E. Healy
Deputy Chief Financial Officer

A. Biographies

R. SCHUYLER LESHER Deputy Chief Financial Officer Department of the Interior

Mr. Leshar is the Deputy Chief Financial Officer at the Department of the Interior. At the Department of the Interior he has responsibility for financial management policy for the Department including financial reporting, financial management systems, asset and debt management and management control. He also is the Chair of the Electronic Commerce and the Financial Systems Committees of the Chief Financial Officers Council.

Prior to joining the Department of the Interior Mr. Leshar was with the Office of Management and Budget where he was the Chief of the Federal Financial Systems Branch in the Office of Federal Financial Management. As a member of the team that established the Office of Federal Financial Management, he was responsible for financial management systems policies. Prior to joining the Federal government he was a partner with KPMG Peat Marwick where he focused primarily on implementation of financial management systems in state, local, and nonprofit organizations. He also spent three years associated with the Nolan Norton division of KPMG which focused on strategic information technology planning for major corporations.

Mr. Leshar holds an MBA from Columbia University, New York, N.Y. and a BA from Bowdoin College, Brunswick, Me. He is a Certified Public Accountant and a Certified Government Financial Manager.

Biography of Nina Rose Hatfield

Nina Rose Hatfield was appointed the Deputy Assistant Secretary for Policy, Management and Budget, Budget and Finance on May 13, 2002. In this role she is responsible for the Interior budget, financial, and other business operations. Ms. Hatfield's primary goal is to integrate sound business practices into the management of Interior programs

Ms. Hatfield has served as the Deputy Director and the Assistant Director of Business and Fiscal Resources for the Bureau of Land Management. As Deputy Director, Ms. Hatfield was responsible for the delivery of multiple use programs on 262 million acres of public lands. As Assistant Director of Business and Fiscal Resources, she led the implementation of a management system, which included acquisition of customer data, development of strategic goals and measures, and implementation of a cost management system based on activity based costing.

Ms. Hatfield is a graduate of Indiana University with a BA in History and a JD. She has worked with the Office of Surface Mining in the Department of the Interior and with the Ohio Attorney General

B. Department of Interior Comment Letter Previously Submitted

Wendy M. Comes, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548
comesw@fasab.gov

Dear Ms. Comes:

Thank you for the opportunity to comment on the Federal Accounting Standards Advisory Board (FASAB) Exposure Draft, "Heritage Assets and Stewardship Land: Reclassification from Required Supplementary Stewardship Information."

The Department of the Interior manages a vast array of stewardship property on behalf of the nation. This stewardship property includes museum property, historic buildings, and one out of every five acres of land in the United States. The management of these assets is a critical part of the mission of the Department. Likewise, the Department has a responsibility to provide complete and accurate reporting of its stewardship over these assets to the nation.

The Department began reporting stewardship information in advance of the implementation date of Statement of Federal Financial Accounting Standards No. 8. In addition, the Department historically presents information in its Stewardship Report well beyond minimum requirements, including management concerns and additional detail about each type of asset.

The Department currently presents a line for Stewardship Information with a footnote reference but no dollar amount on the face of the Balance Sheet. This footnote informs the reader about the existence of Stewardship Assets and refers them to the appropriate section of the report. All specific data about Stewardship Assets, including quantities, are presented in the stewardship section rather than the Notes to the Financial Statements. We believe that this level of reporting is appropriate.

The Department concurs that meaningful and relevant information should be provided to the reader regarding the performance of Stewardship responsibilities. The Exposure Draft, in essence, contains two separate proposals intended to advance this goal. First, the Exposure Draft proposes new text-based disclosures regarding the existence and management of stewardship assets, and second, the Exposure Draft proposes moving certain non-financial information to the Notes to the Financial Statements.

In regards to the first proposal, the Exposure Draft proposes two new disclosures, specifically:

- A concise statement explaining how heritage assets and stewardship land are important to the overall mission of the entity, and
- A brief description of the entity's stewardship policies for heritage assets and stewardship land. Stewardship policies are defined as the goals and principles the entity established to guide its management of stewardship assets consistent with statutory requirements, prohibitions, and limitations. While not all encompassing, the policies may

address preserving and maintaining condition, providing public use or access, and enhancing the heritage assets' value over time.

We support this proposal and believe that reporting this information in the Notes to the Financial Statements would assist the reader in understanding the importance and significance of the agency's Stewardship Assets.

However, the Department does not concur with the second proposal in the Exposure Draft to move the specific reporting of quantity information and other specific information about Stewardship Assets to the Notes to the Financial Statements.

As noted in paragraph 2 of the Exposure Draft,

"The RSSI category was seen as a response to the unique aspects of the Federal accounting and reporting environment, and to the broad objectives of Federal financial reporting. It was intended to permit flexibility on the part of preparers and auditors that would facilitate reporting relevant, reliable information, including nonfinancial and nonhistorical information."

We believe that the above considerations are still true, and that placement of nonfinancial information outside the Notes to the Financial Statements continues to be correct. However, we believe there are some changes which would assist the reader to understand the importance of the information.

- We recommend that the title of the stewardship information section be changed to "Federal Stewardship Information," to omit the implication that this information is supplemental and thus less important, and
- We recommend that this information be placed in the Management's Discussion and Analysis Section of the Report, perhaps immediately before the Analysis of the Financial Statements.

The auditor's opinion states that the financial statements taken as a whole are fairly stated in all material respects in relation to the financial statements taken as a whole. The Notes to the Financial Statements are an integral part of those financial statements. Thus the auditor opines on historical financial data, captured in general ledger systems as related to financial data taken as a whole. Stewardship information is specifically not measured, or measurable, in financial terms. Stewardship information is sum of over 200 years of events which, for the most part, are not captured in the general ledger. Accurate reporting to the nation about the government's stewardship over the assets entrusted to it is vitally important. However, this reporting cannot be summarized in financial terms and thus the reliability of the data cannot be ensured by financial audit procedures.

The Department has two additional concerns about the proposal in the Exposure Draft. First, the costs of the annual financial audit could increase dramatically if financial audit techniques were applied to nonfinancial stewardship data. Second, the agency might be driven to limit the stewardship information to only that information that is specifically required and necessary to meet minimum reporting requirements.

In summary, we believe that this proposal, as currently drafted, would not benefit the reader of Federal financial reports.

Thank you for the opportunity to comment on this Exposure Draft. Please contact Debra Carey on 202-208-5542 if you wish to discuss our comments further.

Sincerely,

P. Lynn Scarlett
Assistant Secretary
Policy, Management and Budget

Enclosure

Questions for Respondents

1) This exposure draft proposes that heritage assets information be reported as basic information, except for condition information, which would be reported as RSI. Do you agree with this proposal? If not, please explain your reasons and the alternative that you would prefer.

and

2) This exposure draft proposes that stewardship land information be reported as basic information, except for condition information, which would be reported as RSI. Do you agree with this proposal? If not, please explain your reasons and the alternative that you would prefer.

The Department of the Interior does not concur with placing currently required Heritage Asset and Stewardship Land disclosures in the Notes to the Financial Statements. Specifically, all information about quantities, additions and deletions should remain in the Stewardship section.

Reasons and Alternatives: While DOI agrees that heritage assets and stewardship land should be included in the report in a format that would make it clear to the reader that this information is not “of secondary importance,” we do not agree that including specific stewardship information in the Notes to the Financial Statements is the best solution. This requirement would increase the cost of the audit of the financial statements significantly and decrease the information provided to the users of the report. It would also require the reader to refer to two totally different sections in order to obtain detail information of heritage assets and stewardship land.

As an alternative, we recommend changing the location and the title of the RSSI. A section entitled “Federal Stewardship Information” should be placed in the MD & A and should include all information currently required for the RSSI, including condition information.

This alternative would emphasize the importance of this information, would provide a forum for a thorough discussion of management concerns and, would present condition information in the same location. As a result, all information about these assets would be presented in one place

so that that reader doesn't have to refer to several parts of the report to become informed on all aspects of this unique Federal property.

The Department concurs with a short Stewardship footnote, supporting a Stewardship Assets line on the Balance Sheet. This footnote should discuss the existence and importance of Stewardship Assets, present disclosures about reporting entity's stewardship policies and an explanation of how heritage assets and stewardship land are pertinent to the entity's mission, and refer readers to the Federal Stewardship Asset section for specific information.

3) *This exposure draft proposes minor changes to the current disclosure requirements for heritage assets and stewardship land. Specifically, it requires additional reporting disclosures about entity stewardship policies and an explanation of how heritage assets and stewardship land are pertinent to the entity's mission. Do you foresee any problems with this new disclosure requirement?*

The Department of the Interior agrees with this proposal. This additional disclosure would add useful information to the report as a whole.

4) *This exposure draft proposes an effective date for periods beginning after September 30, 2004. Do you agree with this effective date? If not, what date would be preferable and why?*

The Department of the Interior does not agree with this date if the Board chooses to include heritage assets and stewardship land as subject to audit. Should this be the case, we would prefer the date to be for periods beginning after September 30, 2005, at the earliest.

If the alternative presented above, or a similar one is chosen, we would agree with the proposed date. In fact, with concurrence from OMB, the Department would begin presenting Federal Stewardship Information as part of the Management's Discussion and Analysis in the fiscal year 2004 Report.

5) *This exposure draft uses the term "significant" in par. 28 and 44 to describe heritage assets and stewardship land for which an entity should provide the required disclosures. The consensus of the Board was that the preparer should be allowed to exercise professional judgment in determining if the heritage assets and stewardship land are significant. Do you agree? If not, what factors or criteria should be considered to define certain heritage assets and stewardship land as significant?*

The Department of the Interior agrees that the preparer should exercise their professional judgment in this matter.

A. Department of Interior, Office of Inspector General Comment Letter Previously Submitted

Our responses to the five questions for respondents contained in the exposure draft follow:

Question

1) This exposure draft proposes that heritage assets information be reported as basic information, except for condition information, which would be reported as RSI. Do you agree with this proposal? If not, please explain your reasons and the alternative that you would prefer.

Response

We do not agree that the heritage assets information should be presented as basic information in the notes to the financial statements. While we agree on the importance and relevance of the heritage assets information, we believe that there are practical and theoretical reasons why it should not be included in the notes to the financial statements.

- a) Movement of the heritage assets information from a separate section of the annual report to a note to the financial statements may reduce the prominence of this information to a reader of the annual report.
- b) The heritage assets information is prepared on a completely different basis than other property and does not clearly link to the financial statements.
- c) Separating the condition information from the related asset information could result in a loss of clarity and potentially give the false implication that the condition information is less important¹.
- d) In order to more readily meet audit scrutiny, preparers may reduce the heritage assets information presented to the minimum acceptable and provide less information than is currently provided. The additional information could be, as noted in the exposure draft, moved to other additional information (OAI). However, this could lead to a disjointed presentation with heritage assets information in the notes, RSI, and OAI.
- e) We do not believe that the criteria for preparing the stewardship information is on the guidance for auditing the information is sufficiently advanced to enable the information to be audited consistently or effectively. For example, more guidance is needed on what constitutes major uses of stewardship land and on major categories of heritage assets. In addition, it is difficult to define materiality for stewardship and heritage assets because the units for heritage assets are not homogenous like the units (dollars) for financial statement amounts. For example, a painting by Vermeer and by a minor artist would be both be one unit but the Vermeer would obviously be much more significant.
- f) Auditing the information could lead to an overemphasis on the reliability of the information as opposed to the relevance of the information.

Prior to requiring that the stewardship information be audited, we would suggest that there first be an analysis of the current disclosures to determine what, if anything, needs to be improved or

¹ We agree with the Board's reasoning in paragraph 55 that the condition information is still experimental and that there is inconsistency in the assessing and reporting of this information.

modified in the current disclosures. If there are problems with the relevance of what is being provided or not provided, additional guidance on the presentation could be provided. Having the information audited would primarily address questions related to the reliability of the information.

Question

2) This exposure draft proposes that stewardship land information be reported as basic information, except for condition information, which would be reported as RSI. Do you agree with this proposal? If not, please explain your reasons and the alternative that you would prefer.

Response

We do not agree with this proposal. See response to question 1).

Question

3) This exposure draft proposes minor changes to the current disclosure requirements for heritage assets and stewardship land. Specifically, it requires additional reporting disclosures about entity stewardship policies and an explanation of how heritage assets and stewardship land are pertinent to the entity's mission. Do you foresee any problems with this new disclosure requirement?

Response

The new disclosures are appropriate and should not result in any problems.

Question

4) The exposure draft proposes an effective date for periods beginning after September 30, 2004. Do you agree with this effective date? If not, what date would be preferable and why?

Response

A later date would be preferable because requiring this information for periods beginning after September 30, 2004, will necessitate modifications to the contracts before sufficient guidance is available to facilitate reaching agreement with contractors as to the amount of additional work that will have to be performed.

Question

5) The exposure draft uses the term "significant" in paragraphs 28 and 44 to describe heritage assets and stewardship land for which an entity should provide the required disclosures. The consensus of the Board was that the preparer should be allowed to exercise professional judgment in determining if the heritage assets and stewardship land are significant. Do you agree? If not, what factors or criteria should be considered to define certain heritage assets and stewardship land as significant?

Response

We believe that additional guidance is needed in this area. The term significant is subject to various interpretations and may lead to major disagreements between the auditors and preparers.

A. Biography

Jeff Norris is a partner in KPMG's Federal Practice. He started with KPMG in 1989 after graduating with a bachelor's degree from the University of St. Thomas, which is located in St. Paul, Minnesota. He joined the Minneapolis office and over the next 9 years audited large international public companies, local governments, and not-for-profits. In 1998, he transferred to the Washington D.C. office, where he currently provides audit services to federal and local governments, including components of the U.S. Department of the Treasury and the U.S. Department of the Interior.

B. Statement or Remarks

Dear Board Members and Staff:

I am pleased to have the opportunity to provide comments on the Exposure Draft on Heritage Assets and Stewardship Land (the "ED") issued by the Federal Accounting Standards Advisory Board (FASAB).

My comments focus on the impact the ED will have on our audit of the U.S. Department of the Interior and its components (the "Department"). The ED will significantly increase our audit effort at the Department, as we have not audited the required disclosures before, and our fiscal year 2003 auditors' report indicates that the Department needs to improve its internal controls over required supplementary stewardship information.

Auditing these required disclosures will be very challenging because of the following considerations:

1. Stewardship Land and Heritage Assets

- a. The Department manages an extensive number of stewardship land and heritage assets, including over 437 million acres of stewardship land and over 373 thousand historic sites, archeology sites, and landmarks located throughout the United States.
- b. Similar to the challenges that the Department of Defense has in supporting acquisition cost for existing military equipment, the Department does not have historic records readily available to demonstrate ownership of certain land and heritage assets or to demonstrate the number of acres owned. A majority of the stewardship land records date back to the early nineteen hundreds.
- c. The information available to perform completeness audit procedures is not readily accessible.

2. Heritage Assets - Museum Collections

- a. The Department manages an extensive museum collection that is estimated to include over 150 million items, such as historic letters, artwork, and pottery.

- b. The collection is an estimate as the Department has only catalogued 40% of the individual items that it discloses in the required supplementary stewardship section. This will limit our ability to perform existence and completeness audit procedures for individual items and collections.
- c. The museum collection is located throughout the United States at approximately 600 Federal facilities and an estimated 1,100 non-Federal facilities.

We estimate that the additional audit costs as a result of the ED will be in excess of \$5 million in the first year, and in excess of \$2 million in each subsequent year. This cost is based on the challenges noted above and the need to use specialists to validate ownership and the number of acres of land (e.g., title attorneys and surveyors).

We also believe that the Department will need to devote a significant amount of funds and internal resources to improve the controls over required supplementary stewardship information and ensure the information is fairly stated. Because of the controls improvements needed and the challenges discussed above, it may be a few years before the Department can provide us with the information needed to render an unqualified opinion on the Department's stewardship disclosures.

If you have any questions, please call me at (202) 533-4024.

Very truly yours,



KPMG LLP
Jeffrey J. Norris

Partner

C. KPMG Comment Letter Previously Submitted

Wendy M. Comes
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW
Suite 6814
Washington, DC 20548

Subject: Response to the FASAB Exposure Draft on Heritage Assets and Stewardship Land

Dear Wendy:

We are pleased to have the opportunity to provide our comments on the Exposure Draft on Heritage Assets and Stewardship Land (the "ED") issued by the Federal Accounting Standards Advisory Board (FASAB).

Our responses to the Questions for Respondents are included as Attachment A. Specific detailed comments on the ED are provided in Attachment B to this letter.

If additional information or clarification is needed regarding our comments, please contact me at (202) 533-6072, John Hummel at (202) 533-3008, or Diane Dudley at (202) 533-3002.

Very truly yours,

Daniel L. Kovlak
Partner

Attachment A

Questions for Respondents

1. This exposure draft proposes that heritage assets information be reported as basic information, except for condition information, which would be reported as RSI. Do you agree with this proposal? If not, please explain your reasons and the alternative that you would prefer.

We have chosen to answer questions 1 and 2 with a combined answer.

We do not agree with this proposal. By classifying this information as basic, we believe the additional audit effort would not be cost beneficial. The stewardship land and heritage asset disclosures would be disclosures of unit information rather than cost information. These unit disclosures cover stewardship land, monuments, museum collections, historical landmarks, etc.

Some agencies have thousands of acres of stewardship land that auditors will have to test a sample of, to verify ownership, existence, completeness, and accuracy. The first year effort will be very extensive as many of these records probably have not been audited before and the agencies may not have information readily available. We believe, that there will be a lack of readily available historic information to support ownership and certain unit information of stewardship land and heritage assets. In addition, auditors will also need to perform site visits as part of their audit procedures to verify existence and completeness.

The increase in audit costs for these added services will be significant. Therefore, we believe this information should be included as RSI.

2. This exposure draft proposes that stewardship land information be reported as basic information, except for condition information, which should be reported as RSI. Do you agree with this proposal? If not, please explain your reasons and the alternative that you would prefer.

See 1 above.

3. This exposure draft proposes minor changes to the current disclosure requirements for heritage assets and stewardship land. Specifically, it requires additional reporting

disclosures about entity stewardship policies and an explanation of how heritage assets and stewardship land are pertinent to the entity's mission. Do you foresee any problems with this new disclosure requirement?

We do not foresee any problems with requiring additional reporting disclosures about entity stewardship policies and an explanation of how heritage assets and stewardship land are pertinent to the entity's mission.

4. This exposure draft proposes an effective date for periods beginning after September 30, 2004. Do you agree with the effective date? If not, what date would be preferable and why?

We agree with the effective date for periods beginning after September 30, 2004.

5. This exposure draft uses the term "significant" in paragraphs 28 and 44 to describe heritage assets and stewardship land for which an entity should provide the required disclosures. The consensus of the Board was that the preparer should be allowed to exercise professional judgment in determining if the heritage assets and stewardship land are significant. Do you agree? If not, what factors or criteria should be considered to define certain heritage assets and stewardship land as significant?

We agree that the preparer should be allowed to exercise professional judgment in determining if the heritage assets and stewardship land are significant. Like "materiality," it is very difficult, if not impossible, to define the term "significant." In this case, it is even more difficult, when something other than dollar amounts may be used to determine "significant."

Attachment B

KPMG Comments on the Exposure Draft on Heritage Assets and Stewardship Land

KPMG has reviewed the exposure draft on Heritage Assets and Stewardship Land. Our comments by paragraph follow.

<u>Paragraph</u>	<u>Comment</u>
28 c.	The term "major category of heritage asset" is used. The term "major category" should be defined or described.
28 c.1	The term "collection" should also be defined or described.
28 c.3	The last sentence says that "the fair value of heritage assets acquired through donation or devise, if known and material, should be disclosed in the notes to the basic financial statements in the year received." We question the need for this disclosure, since the fair value of all other heritage assets is not required to be disclosed.
28 c.3	How is "materiality" determined if fair value is not known or can not be determined? Should it be based on the number of units?

A. Department of Interior Comment Letter

Ms. Wendy M. Comes
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW
Washington, D.C. 20548

Dear Ms. Comes:

Thank you for the opportunity to comment on FASAB's Exposure Draft, Accounting for Earmarked Funds.

Earmarked Funds may contain either exchange or non-exchange revenue. Exchange revenue is currently presented on the Statement of Net Cost, by program and responsibility segment, and included in the "Net Cost of Operations" line on the Statement of Changes in Net Position. Non-exchange revenue is presented as a financing source on the Statement of Changes. We feel that this current treatment is correct and meaningful. While we concur with the disclosure of revenue earned in earmarked funds, we believe that footnote disclosure would provide the most clear and complete disclosure.

We concur with the requirements of paragraph 17 regarding the presentation of earmarked funds by the entity clearly responsible for each portion of the fund. This will resolve a current issue with the Aquatic Resources Trust Fund and lead to better information.

We do not concur that Cumulative Results of Operations should be separately disclosed for earmarked funds. This disclosure would be misleading. Interior has dozens of "earmarked" funds and other agencies are likely in the same position. These funds are often closely linked to an agency operation or program where several Treasury Fund Symbols are used to carry out the program. Capturing and reporting the revenue from these funds in separate General Ledger account is feasible, since these funds exist to capture revenue. While "full" financial information, such as equity, a summarized balance sheet, a summarized Net Cost statement, etc., in meaningful for the larger and more unique earmarked funds, it is not appropriate for the dozens of smaller funds. Most earmarked funds are best understood in the context of the whole program. Reporting the equity in these funds separate from the other Fund Symbols that make up an activity would not be appropriate.

Our understanding is that the criteria listed in the ED for defining earmarked fund is similar to criteria used by OMB, as illustrated on the chart on page 12. The term "earmarked" is defined by OMB and extensively understood in the Federal community, especially in the Budget community. If the Board believes that the financial reporting definition of "earmarked" should differ from OMB's definition, a different term needs to be identified. To use the same term for two very similar, but slightly different, concepts would create needless confusion. The same is true for "Public Enterprise Funds" and other established budgetary terms.

Please let me know if you wish to discuss these comments further.

Debra Carey
=====

Questions for Respondents

1. Do you agree with the definition of earmarked funds? See paragraph 10 for the definition, and paragraphs 44 and 45 in the Basis for Conclusions for the rationale.

Yes. The conceptual definition of earmarked funds appears to be theoretically sound. There is a real, practical need to apply a term that will not create confusion. The term "earmarked" should be used only if it is intended to correspond to the existing use of that term in the Federal budget process. Otherwise, a different term should be chosen.

a. Do you know of any earmarked fund that would be excluded from coverage based on the definition in the standard but that you think should be included? Please identify the fund(s), give the reasons you believe it would be excluded under the proposed definition and explain why you think it should be included.

No.

b. Do you know of any earmarked fund that would be covered by this standard based on the definition in the standard but that you think should not be included? Please identify the fund(s), give the reasons you believe it would be included under the proposed definition and explain why you think it should not be included.

No. The definition is good. However, most earmarked funds are insignificant and in actually part of day-to-day operations. The reporting requirements are excessive for most of the activities that qualify as earmarked funds.

2. Do you agree with the accounting treatment of earmarked funds at the component entity level? See paragraphs 16 - 24 for the accounting and reporting requirements. If you disagree with the accounting treatment, or know of specific ways in which you believe it can be improved, please provide a thorough analysis with specific examples if possible.

No. For clarity, the revenue disclosure should be moved to the Footnotes, primarily due to issues created by the fact that earmarked revenue may be either exchange or non exchange

a. Do you agree that the flow of earmarked funds should be shown separately on the Statement of Changes in Net Position? See paragraph 16 for the accounting standard and paragraph 53 in the Basis for Conclusions for the rationale.

No. Exchange revenues are already subject to detailed presentation requirements by program and responsibility segment. This would require that Net Cost of Operations be presented as two or more lines on the SCNP, while non-exchange earmarked revenue is reported elsewhere on the statement. Footnote presentation would provide more meaningful disclosure.

b. Do you agree that the cumulative results of operations for earmarked funds should be separately identified from the cumulative results of operations for other funds on the Statement of Changes in Net Position and on the Balance Sheet? See paragraph 16 for the accounting standard and paragraphs 46 through 52 in the Basis for Conclusions for the rationale.

No. This disclosure would be misleading, since many earmarked accounts are integral to program operations.

c. Do you agree that a component entity should either identify, by title, all earmarked funds for which it is responsible, or state where this information can be found? See paragraph 18 for the accounting standard and paragraph 54 in the Basis for Conclusions for the rationale.

No. There are hundreds. Selected disclosures about very large and significant funds would be appropriate.

d. Do you agree that a component entity should disclose any legislation that significantly changes the purpose of the fund or that redirects a significant portion of the accumulated balance of a significant earmarked fund? See paragraph 20.3 for the accounting standard and paragraph 56 in the Basis For Conclusions for the rationale.

No, see above.

e. Do you agree that component entities with intragovernmental investments shown on the balance sheet should include a note disclosure addressing the issues in paragraph 23? See paragraph 50 in the Basis for Conclusions for the rationale.

Yes, but only if the suggested disclosure is accurate and relevant to the fund.

f. Do you agree that the standard should provide guidelines and an example for a note disclosure on investments, as is now done in paragraphs 23 and 16, or do you think that the standard should prescribe specific language for the note?

Guidance should be provided, but not specific language. This is not a “one size fits all disclosure.” The underlying terms and legislation may vary for each fund.

g. Do you agree that if more than one component entity is responsible for carrying out the program financed with earmarked revenues and other financing sources, and the separate portions of the program can be clearly identified with a responsible component entity, each entity should report its portion? See paragraph 17 for the accounting standard and paragraph 57 in the Basis for Conclusions for the rationale.

Yes, this is a good change to SFFAS #7,

3. Do you agree with the reporting requirements for the U.S. Government-wide financial statements? See paragraphs 25 through 29 for the accounting standard. If you disagree with the accounting treatment, or know of specific ways in which you believe it can be improved, please provide a thorough analysis with specific examples if possible.

No, this is subject to the same limitations as agency financial statements.

a. Do you agree that earmarked revenue and other financing sources should be shown separately on the U.S. Government Statement of Operations and Changes in Net Position? See paragraph 25 for the accounting standard and paragraph 53 in the Basis for Conclusions for the rationale.

No

b. Do you agree that the portion of Net Position attributable to earmarked funds should be shown on the U.S. Government Balance Sheet? See paragraph 25 for the accounting standard and paragraphs 46 through 52 in the Basis for Conclusions for the rationale.

No

c. Do you agree that condensed information, as described in paragraph 26, should be provided for each significant fund and in aggregate for all remaining funds with eliminations necessary to produce the Government-wide total of earmarked funds?

No

d. Do you agree that a note disclosure should provide a general reference to component reports for additional information about individual earmarked funds? See paragraph 28 for the accounting standard.

No

e. Do you agree that a note should provide a general description of earmarked funds and an explanation of how the Federal Government as a whole would provide the resources represented by the earmarked funds' balance in Treasury securities? See paragraph 29 for the accounting standard, and paragraph 46 through 52 in the Basis for Conclusions for the rationale.

Yes

4. Does the proposed accounting standard provide preparers with sufficient guidance on the required accounting and reporting treatment? Does it clearly explain the requirements for each situation? If you believe that it does not give sufficient guidance, please describe, in as much detail as possible, the issues that are inadequately addressed and explain where expanded or clarifying guidance is needed.

No. see above

5. The proposed accounting standard uses the term "significant" in paragraphs 20 and 26 to describe the earmarked funds for which a reporting entity should provide additional information. In Board discussions various alternatives were considered for defining "significant." One alternative considered was to define "significant" on a strictly financial basis, such as a percentage of the reporting entity's revenues or cumulative results of operations. Another alternative the Board considered was whether the term "significant" could be defined as the largest three or four earmarked funds of a reporting entity, as defined by some financial measure such as revenue. The Board also discussed using qualitative factors as criteria, such as: whether an earmarked fund is material to a Government program; whether it is politically sensitive or controversial; whether it is accumulating large balances, or whether the information provided in the financial statements would be the sole source of financial information for the public. The consensus of the Board was that the preparer should be allowed to decide whether or not an earmarked fund is "significant". Do you agree, or do you believe that the standard should provide additional guidance defining the term "significant"? If you believe that further guidance is needed, please explain what criteria you would use to define "significant". Overall, the term significant is good. It would be helpful to add an example (non-binding) threshold to provide guidance and clarity. For example, "The reporting applies to significant

Sky Leshner, Department of Interior, Office of the Chief Financial Officer
Nina Hatfield, Department of Interior, Office of the Chief Financial Officer

funds. In general, a fund might be considered significant to an agency if it's assets are greater than xx% of total agency assets."

A. Biography

**JAMES R. LINGEBACH
BIOGRAPHICAL SKETCH**

March 2004

James Lingebach is the Director of the Office of Accounting and Internal Control at the Department of the Treasury. His office is part of Treasury's Deputy Chief Financial Officer's organization, and is responsible for accounting, financial statement, internal control, travel program, and advisory committee policy matters for all of Treasury's bureaus. His office is also responsible for preparing the "Accountability" portion of the Department's Performance and Accountability Report, as well as monthly/quarterly financial statements.

Mr. Lingebach has worked in his current office at Treasury for the past seventeen years as a staff accountant and Assistant Director prior to being appointed Director in 1997. Prior to that, he worked for ten years as a staff and supervisory auditor in Treasury's Office of Revenue Sharing, providing oversight for state and local government accounting and auditing issues. Before joining Treasury, he worked at a 'big five' accounting firm for seven years in positions of increasing responsibility.

Mr. Lingebach received his B.S. degree in business administration from the University of Maryland and is a Certified Public Accountant and Certified Government Financial Manager.

B. Statement or Remarks

**DEPARTMENT OF THE TREASURY
STATEMENT BEFORE THE FEDERAL ACCOUNTING STANDARDS
ADVISORY BOARD**

Exposure Draft on Identifying and Reporting Earmarked Funds
March 3 - 4, 2004

Thank You, Mr. Chairman and members of the Board, for the opportunity to provide the Department of the Treasury's comments on this exposure draft. I am representing the "operating agency" part of Treasury, rather than the "government-wide" Treasury.

We have provided our written comments with detailed responses to the questions in the ED. We support the principles contained in the exposure draft, and think that just a few items need additional clarification.

We think the Board should consider expanding the definition of earmarked funds, perhaps making it less restrictive. We are concerned that a strict application of the definition as currently written would exclude funds that perhaps should be included to meet the spirit of the proposed standard. For example, we have a number of non-appropriated entities in Treasury whose revenues are only used within those entities. However, they do not appear to meet the ED's

literal definition of “earmarked funds” and thus would not be reported as earmarked funds in the Department’s consolidated financial statements. If it is the Board’s intent to be restrictive, then the definition is fine as written. However, if the Board’s intent is to have the standard more widely applied, a broader definition would help achieve that goal. Either way, a few examples would be useful.

The funds described in the paragraph above are exchange revenues, so the statement of net cost is also affected. If it is ultimately determined that they should be reported as earmarked funds, then it would be helpful to have additional language in the standard on the handling of earmarked funds in the statement of net cost.

We prefer that information on earmarked funds be disclosed in the footnotes, rather than on the face of the statements, in order to keep from expanding the line items displayed on the face of the statements. While we are likewise concerned about expanding the volume of the footnotes, we think footnote disclosure is preferable.

We would like to see the standard more clearly differentiate between the “General Fund” of the Federal government and the Treasury operating entity. The distinction is made in some cases, but not in others (e.g., page 30 example labels the second column as “Treasury Dept.”).

As obtaining and auditing the data will be problematic for Treasury and probably for many other agencies, we appreciate that the new standard would not be effective until FY 2006.

I would now be happy to respond to any questions you may have.

C. Department of Treasury Comment Letter

Identifying and Reporting Earmarked Funds Statement of Federal Financial Accounting Standards Exposure Draft – October 2003

Department of the Treasury Comments to Exposure Draft Questions (Pages 8-9)
March 2004

1. Do you agree with the definition of earmarked funds? See paragraph 10 for the definition, and paragraphs 44 and 45 in the Basis for Conclusions for the rationale.

Treasury Response:

Yes, we believe the Federal Accounting Standards Advisory Board (FASAB) definition is appropriate. The Department does not anticipate major problems in fully applying this definition.

However, it would be beneficial if the standard more clearly defines funds to which the standard applies.

1a. Do you know of any earmarked fund that would be excluded from coverage based on the definition in the standard but that you think should be included? Please identify the fund(s), give the reasons you believe it would be excluded under the proposed definition and explain why you think it should be included.

Treasury Response:

Yes, the Department has several non-appropriated entities (e.g., the Comptroller of the Currency (OCC) and the Office of D.C. Pensions (DCP) who may not technically meet FASAB's earmarked funds definition. For example, OCC retains revenues for future use. However, the authority to do so is implicit rather than prescribed by statute. Also, the Office of DCP assets can only be used for specific purposes. DCP is self-funded and does not rely on identified revenues and other financing sources to operate. Accordingly, it is unclear as to which Treasury entities will be classified as earmarked funds. Therefore, it would be helpful if FASAB expands this definition to more comprehensively identify applicable funds.

1b. Do you know of any earmarked fund that would be covered by this standard based on the definition in the standard but that you think should not be included? Please identify the fund(s), give the reasons you believe it would be included under the proposed definition and explain why you think it should not be included.

Treasury Response:

It may be that the Mint's seigniorage revenues, the difference between the face value of coins produced for the Federal Reserve and the Mint's production costs, could be considered to be "earmarked funds." However, we do not think that seigniorage should be considered to be earmarked funds.

2. Do you agree with the accounting treatment of earmarked funds at the component entity level? See paragraphs 16-24 for the accounting and reporting requirements. If you disagree with the accounting treatment, or know of specific ways in which you believe it can be improved, please provide a thorough analysis with specific examples if possible.

Treasury Response:

Yes, we believe the financial statement presentation and disclosure requirements at the component entity level are appropriate. In particular, requiring that each component entity be responsible for reporting its portion of earmarked revenues and other financing sources ensures complete and accurate accountability.

2a. Do you agree that the flow of earmarked funds should be shown separately on the Statement of Changes in Net Position? See paragraph 16 for the accounting standard and paragraph 53 in the Basis for Conclusions for the rationale.

Treasury Response:

No, we do not believe that the flow of earmarked funds should be separately shown on the Statement of Changes in Net Position. Adding this information to the statement could potentially cause confusion and misinterpretation. We recommend that earmarked funds be included as a footnote disclosure. However, we are concerned about the ability of agencies to collect the needed information through existing accounting systems. We also believe that the additional requirements may be problematic for auditors.

2b. Do you agree that the cumulative results of operations for earmarked funds should be separately identified from the cumulative results of operations for other funds on the Statement of Changes in Net Position and on the Balance Sheet? See paragraph 16 for the accounting standard and paragraphs 46 through 52 in the Basis for Conclusions for the rationale.

Treasury Response:

No, we do not believe that cumulative results of operations for earmarked funds should be separately identified on the Statement of Changes in Net Position and the Balance Sheet. We prefer a footnote disclosure rather than additional financial statement line items. Once again, the ability of agencies to collect needed information and potential audit issues are major concerns.

2c. Do you agree that a component entity should either identify, by title, all earmarked funds for which it is responsible, or state where this information can be found? See paragraph 18 for the accounting standard and paragraph 54 in the Basis for Conclusions for the rationale.

Treasury Response:

Yes, we strongly agree with the proposal to require a title identification of earmarked funds as well as specific information location. The strengthening of documentation controls will help to ensure timely earmarked fund audit information. In addition, earmarked fund program management accountability will help to ensure accurate financial statements.

2d. Do you agree that a component entity should disclose any legislation that significantly changes the purpose of the fund or that redirects a significant portion of the accumulated balance of a significant earmarked fund? See paragraph 20. 3 for the accounting standard and paragraph 56 in the Basis for Conclusions for the rationale.

Treasury Response:

We agree with the proposal that component entities disclose legislation that significantly changes or redirects a portion of earmarked funds.

2e. Do you agree that component entities with intra-governmental investments shown on the balance sheet should include a note disclosure addressing the issues in paragraph 23? See paragraph 50 in the Basis for Conclusions for the rationale.

Treasury Response:

Yes, we believe that balance sheet intra-governmental investments should include a note disclosure addressing issues in Paragraph 23. Paragraph 23 frequently references "the U.S.

Treasury.” In the past, the Department spent a lot of time and effort to properly define the “Treasury” entity. Accordingly, this new standard should clearly distinguish Treasury as an operating agency versus the “General Fund” of the Treasury. We would appreciate it if the language in the ED be revised to clearly make this distinction.

2f. Do you agree that the standard should provide guidelines and an example for a note disclosure on investments, as is now done in paragraphs 23 and 16, or do you think that the standard should prescribe specific language for the note?

Treasury Response:

We recommend that the standard prescribe specific language for the note. This will help to ensure government-wide consistency.

2g. Do you agree that if more than one component entity is responsible for carrying out the program financed with earmarked revenues and other financing sources, and the separate portions of the program can be clearly identified with a responsible component entity, each entity should report its portion? See paragraph 17 for the accounting standard and paragraph 57 in the Basis for Conclusions for the rationale.

Treasury Response:

We strongly agree with FASAB’s proposal that each component entity report its portion of earmarked revenues and other financing sources. This methodology will enhance accountability and financial reporting.

3. Do you agree with the reporting requirements for the U.S. Government-wide financial statements? See paragraphs 25-29 for the accounting standard. If you disagree with the accounting treatment, or know of specific ways in which you believe it can be improved, please provide a thorough analysis with specific examples if possible.

Treasury Response:

We generally agree with FASAB’s reporting requirements for Government-wide financial statements. However, please note the exceptions addressed under 3a, 3b and 4.

3a. Do you agree that earmarked revenue and other financing sources should be shown separately on the U.S. Government Statement of Operations and Changes in Net Position? See paragraph 25 for the accounting standard and paragraph 53 in the Basis for Conclusions for the rationale.

Treasury Response:

No, we do not believe that earmarked revenue & other financing sources be shown separately on the Government-wide Statement of Operations and Changes in Net Position. Our justification and concerns are discussed under question 2a. Also, most of Treasury’s revenues that appear to fit the definition of earmarked funds are exchange revenues. Accordingly, the Statement of Net Cost is also affected. We would appreciate the ED to more clearly address the handling of exchange revenue.

3b. Do you agree that the portion of Net Position attributable to earmarked funds should be shown on the U.S. Government Balance Sheet? See paragraph 25 for the accounting standard and paragraphs 46 through 52 in the Basis for Conclusions for the rationale.

Treasury Response:

We do not agree that Net Position attributed to earmarked funds be shown on the Government-wide Balance sheet. Once again, a footnote disclosure is preferred.

3c. Do you agree that condensed information, as described in paragraph 26, should be provided for each significant fund and in aggregate for all remaining funds with eliminations necessary to produce the Government-wide total of earmarked funds?

Treasury Response:

Yes, we agree that condensed information should be provided for each significant fund and all remaining funds with eliminations to produce a Government-wide earmarked funds total. However, we are concerned with a potential expanding volume of footnotes.

3d. Do you agree that a note disclosure should provide a general reference to component reports for additional information about individual earmarked funds? See paragraph 28 for the accounting standard.

Treasury Response:

Yes, we agree.

3e. Do you agree that a note should provide a general description of earmarked funds and an explanation of how the Federal Government as a whole would provide the resources represented by the earmarked funds' balance in Treasury securities? See paragraph 29 for the accounting standard, and paragraph 46 through 52 in the Basis for Conclusions for the rationale.

Treasury Response:

Yes, earmarked fund revenues appear to be a material government-wide figure which should include a general description disclosure.

4. Does the proposed accounting standard provide preparers with sufficient guidance on the required accounting and reporting treatment? Does it clearly explain the requirements for each situation? If you believe that it does not give sufficient guidance, please describe, in as much detail as possible, the issues that are inadequately addressed and explain where expanded or clarifying guidance is needed.

Treasury Response:

No, as described above, we would appreciate more specific guidance, such as guidance on reporting exchange revenues in the Statement of Net Cost. Also, as written, the ED may exclude a number of funds that are intended to be reported as earmarked funds.

5. Do you believe that the standard should provide additional guidance defining the term "significant." If you believe that further guidance is needed, please explain what criteria you would use to define "significant"

Treasury Response:

We believe the standard should provide additional guidance to define the term "significant." Perhaps the term should be defined as a percentage of cumulative results of operations or total net position. For this purpose, significant would probably be something like 20% of cumulative results of operations.

A. Biographies

DAVID L. COTTON, CPA, CFE, CGFM
COTTON & COMPANY LLP MANAGING PARTNER

Dave Cotton is managing partner of Cotton & Company LLP, Certified Public Accountants. Cotton & Company is headquartered in Alexandria, Virginia. The firm has a practice concentration in assisting Federal and State agencies, inspectors general, and government grantees and contractors with a variety of government program-related assurance and advisory services. Cotton & Company has performed grant and contract, indirect cost rate, financial statement, financial related, and performance audits for more than two dozen Federal inspectors general as well as numerous other Federal and State agencies and programs.

Cotton & Company's Federal agency audit clients include the U.S. General Accounting Office, the U.S. House of Representatives, the U.S. Small Business Administration, and the U.S. Department of Justice. Cotton & Company also assists numerous Federal agencies in preparing financial statements and improving financial management and accounting systems.

Mr. Cotton received his BS in mechanical engineering (1971) and an MBA in management science and labor relations (1972) from Lehigh University in Bethlehem, PA. He also pursued graduate studies in accounting and auditing at the University of Chicago, Graduate School of Business (1977 to 1978).

Mr. Cotton is presently serving on the board of the Institute for Truth in Accounting.

Mr. Cotton is presently serving on the American Institute of CPAs (AICPA) Anti-Fraud Programs and Controls Task Force, and is a former member of the AICPA "Group of 100." He is the past-chairman of the AICPA Federal Accounting and Auditing Subcommittee and has previously served on the AICPA Governmental Accounting and Auditing Committee and the Government Technical Standards Subcommittee of the AICPA Professional Ethics Executive Committee.

Mr. Cotton is currently serving on the board of the Virginia Society of Certified Public Accountants (VSCPA), and has served on the VSCPA Litigation Services Committee, Professional Ethics Committee, Quality Review Committee, and Governmental Accounting and Auditing Committee. He is member of the Greater Washington Society of CPAs (GWSCPA) and is serving on the GWSCPA Professional Ethics Committee and the GWSCPA Federal Issues and Standards Committee. He is a member of the Association of Government Accountants (AGA) and is past-advisory board chairman and past-president of the AGA Northern Virginia Chapter. He is also a member of the Institute of Internal Auditors (past governor of the Washington, DC Chapter).

Mr. Cotton has testified as an expert in governmental accounting and auditing issues before the United States Court of Federal Claims and other administrative and judicial bodies.

Mr. Cotton served as a technical reviewer for the 1999 through 2003 editions of the AICPA Audit and Accounting Guide *Audits of Federal Government Contractors*.

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Phil Peters, Advisory Board Member of The Institute for Truth in Accounting

Mr. Cotton is the author of the AICPA continuing education courses ***Fraud in Governmental and Not-for-Profit Audits—the Auditor’s Responsibilities Under SAS 82*** and ***Joint and Indirect Cost Allocations: How to Prepare and Audit Them***. He also has been an adjunct instructor at the Inspectors General Auditor Training Institute (***Auditing the Federal Contracting Process*** and ***Contract and Procurement Fraud***) and currently teaches at the George Mason University Small Business Development Center (***Fundamentals of Accounting for Government Contracts***).

Phil Peters

Retired (7/02) Ernst & Young senior partner experienced in leading project teams providing services to large, multinational organizations. Has set direction and managed EY operating units and professional support activities in US, Europe and Latin America. Has living and work experience on three continents (22 years outside US) and has travelled, for business and personal reasons, throughout much of the world. Practiced in diverse cultures and political systems and managed large numbers of professional across borders.

Currently, an Advisory Board member of The Institute for Truth in Accounting. Past Board member of the Business Council for International Understanding. Past member of American Chambers of Commerce in France, Belgium and Argentina.

Born in Cleveland , Ohio 9/11/43. Graduated 1963 from Bowling Green State University (Ohio). CPA from 1965.

B. Comment Letter

Dear Ms. Comes,

Following are my comments on the subject Exposure Draft. Thank you for indulging this late response. My comments also relate to the Exposure Draft titled "Accounting for Fiduciary Activities" that was issued in April 2003. Thank you for indulging an even later response to that one.

I commend the Board on its efforts to clarify what "dedicated collections" are and what "trust funds" are. My only major concern with both the earmarked funds ED and the fiduciary activities ED is that, in both, FASAB relegates the Social Security program to that of a non-fiduciary activity. In paragraphs 4 and 41 of the earmarked funds ED, the Social Security program is cited as an example of an earmarked fund. Since it is the Board's intent to divide dedicated collections into two categories, if Social Security is assumed to be an earmarked fund, it cannot be a fiduciary activity. Similarly, in the fiduciary activities ED, paragraph 67 cites Social Security as an example of something that is not a fiduciary activity. Paragraph 79 explicitly states that the fiduciary activities ED does not apply to the Social Security assets. (This is propitious, I suppose, because most readers of the definition of fiduciary activity, at paragraph 11, would conclude that the money withheld from their earnings and "deposited" into 9-digit numbered accounts with their names attached to them fits squarely within that definition.)

If the fiduciary activity standard expressly excludes Social Security assets, then I recommend that the earmarked funds standard do so as well, and the treatment of Social Security (and other social insurance) trust funds be accorded special treatment as something other than a fiduciary activity or an earmarked fund. This is far from a trivial recommendation: the preponderance of earmarked fund amounts is within the Social Security and Medicare programs.²

I understand the argument upon which FASAB is standing in declaring social insurance programs to be non-fiduciary: "... the meaning of the term 'trust' in the Federal Government differs significantly from its meaning in the private sector." Here's the private sector definition of fiduciary (from *Webster's Unabridged Dictionary*):

—*noun*

1. *Law.* a person to whom property or power is entrusted for the benefit of another.

—*adjective*

2. *Law.* of or pertaining to the relation between a fiduciary and his or her principal: *a fiduciary capacity; a fiduciary duty.*
3. of, based on, or in the nature of trust and confidence, as in public affairs: *a fiduciary obligation of government employees.*
4. depending on public confidence for value or currency, as fiat money.

Once again, I am certain that most people think that their Social Security assets fit somewhere within this definition (probably #3).

² See Federal Trust and Other Earmarked Funds, GAO-01-199SP, January 2001, page 20.

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Phil Peters, Advisory Board Member of The Institute for Truth in Accounting

Two court cases appear to be the foundation of the Board's conclusions about the non-fiduciary nature of the Social Security program.³ Both of these narrow-issue cases, however, dealt with claims of entitlement *after* the passage by Congress of laws that expressly changed the entitlements. In other words, neither case ruled that a fiduciary obligation did not exist with regard to the currently-in-place laws, rules, and regulations underlying social insurance programs.

FASAB has many times argued that no liability for future expected benefits should be recognized, because "the terms in the law that created the trust fund can be unilaterally altered by Congress."⁴ I would counter with two points:

1. Until Congress changes the law, citizens have a right to plan on the government's long-term fiduciary⁵ obligation to pay benefits.
2. In a democracy, no action by Congress is really unilateral. It is a political reality that members of Congress act at peril of retribution by the governed. (The meaning of the term 'unilateral' in the Congress differs significantly from its meaning in the private sector.)

If Congress decides at some future time to change the rules governing Social Security (and I think we all agree that they must and will do so), then that action will have been bi-lateral (with the indirect consent of the beneficiaries) and then and only then will there be a need to change the nature of the commitment, obligation, liability, or fiduciary nature of the program.

As you know, my underlying concern about accounting for Social Security is FASAB's unwillingness (so far, at least) to treat the existing long-term commitment as a liability. I understand that FASAB is revisiting this question. I encourage FASAB to exclude Social Security from both of these current EDs and instead devise a third category of dedicated collections that addresses social insurance programs. If FASAB intends to revise SFFAS #17, then there is no need to force-fit social insurance into either the fiduciary activity or earmarked funds category.

FASAB has already recognized that social insurance programs are neither completely fiduciary nor completely non-fiduciary. In SFFAS # 17, at page 1, FASAB stated correctly that:

³ The "analogy between social welfare and 'property' cannot be stretched to impose a constitutional limitation on the power of Congress to make substantive changes in the law of entitlement to public benefits." Furthermore, "[t]he fact that social security benefits are financed in part by taxes on an employee's wages does not in itself limit the power of Congress to fix the levels of benefits under the Act or the conditions upon which they may be paid. Nor does an expectation of public benefits confer a contractual right to receive the expected amounts." —*Richardson v. Belcher*, 404 U.S. 78 (1971)

"It was doubtless out of an awareness of the need for such flexibility that Congress included in the original [Social Security] Act, and has since retained, a clause expressly reserving to it '[t]he right to alter, amend, or repeal any provision' of the Act. 1104, 49 Stat. 648, 42 U.S.C. 1304. That provision makes express what is implicit in the institutional needs of the program." —*Flemming v. Nestor*, 363 U.S. 603 (1960)

⁴ FASAB Concepts Statement #2, paragraph 19.

⁵ I use the term "fiduciary" here with the same meaning that FASAB used in Concepts Statement # 2, paragraph 89: *For citizens, information about budget execution provides assurance that their elected and appointed representatives have fulfilled their most basic fiduciary responsibility: to raise and spend money in accordance with the law.*

Social insurance programs have complex characteristics and thus require specialized accounting standards. These programs blend elements of exchange and nonexchange transactions and therefore do not completely fit traditional accounting notions of either annual governmental assistance programs (nonexchange transactions) or long-term pension programs (exchange transactions).

What the earmarked funds ED would do is force-fit social insurance into “*traditional accounting notions of ... annual governmental assistance programs (nonexchange transactions)*”

One solution to this dilemma that FASAB should consider is dividing social insurance program revenues and assets into these two component parts: exchange (fiduciary) and nonexchange (non-fiduciary). Doing so would be relatively easy. And doing so would provide users of Federal financial statements the key information needed to construct equitable solutions to ensuring the long-term health of these important programs.

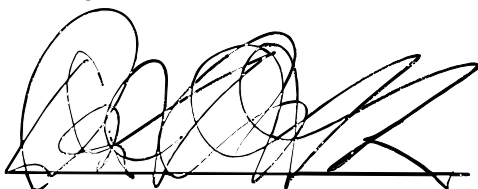
The debate over whether Social Security is a pay-as-you-go income transfer program or a pension-type program is now in its 70th year.⁶ Indeed, Franklin Roosevelt himself had strong views that the Social Security program should be based on “insurance principles.” In January 1936, Roosevelt said, “It is almost dishonest to build up an accumulated deficit for the Congress of the United States to meet in 1980. We can’t do that. We can’t sell the United States short in 1980 any more than in 1935.”⁷

The best way to finally resolve this argument is to acknowledge (as FASAB did in SFFAS #17, page 1) that this program does not fit nicely in one category or the other, but has elements of both; and devise the most appropriate accounting rules that recognize both the portions of revenues and assets that have exchange-transaction elements and the portions that have nonexchange-transaction elements.

* * * * *

Thank you for considering these comments. I will be happy to discuss them further with you and the Board. Keep up the good work.

Best regards,

A handwritten signature in black ink, appearing to read 'D. Cotton', with a horizontal line drawn underneath it.

David L. Cotton, CPA, CFE, CGFM

⁶ See The Real Deal, The History and Future of Social Security, by Sylvester J. Schieber and John B. Snow, Yale University Press, Chapters 5 and 6.

⁷ *Ibidem*, page 37.

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